HEALTH AND SENIOR SERVICES

SENIOR SERVICES AND HEALTH SYSTEMS BRANCH

HEALTH FACILITIES EVALUATION AND LICENSING DIVISION

OFFICE OF CERTIFICATE OF NEED AND HEALTHCARE FACILITY LICENSURE

Hospital Financial Reporting

Proposed Readoption: N.J.A.C. 8:31B

Authorized By: ____________________________ Poonam Alaigh, MD, MSHCPM, FACP, Commissioner, Department of Health and Senior Services (with the approval of the Health Care Administration Board).

Authority: N.J.S.A. 26:2H-1 et seq., specifically 26:2H-5(b).

Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2010-     .

Written comments must be postmarked on or before     , 2010

and mailed to:

Ruth Charbonneau, Director
Office of Legal and Regulatory Affairs
New Jersey Department of Health and Senior Services
PO Box 360
Trenton, NJ 08625-0360

The agency proposal follows:
Summary

Pursuant to N.J.S.A. 52:14B-5.1c, N.J.A.C. 8:31B, Hospital Financial Reporting, was scheduled to expire on December 15, 2010. The Department of Health and Senior Services (the Department) has reviewed N.J.A.C. 8:31B and has determined the existing rules to be necessary, proper, reasonable, efficient, understandable, and responsive to the purposes for which they were originally promulgated. The Department has determined that the rules set forth at N.J.A.C. 8:31B are needed to implement the underlying statute; do not impede responsible economic growth; provide sufficient and non-contradictory guidance to applicants for licenses that do not, for the most part, lead to licensure delays or denials; and, do not exceed legislative intent or Federal standards without well-documented cause, thereby placing the state at a competitive advantage in attracting investment and jobs. The Department is proposing the readoption without change of the hospital financial reporting standards to maintain these standards for all licensed general hospitals and certain special hospitals. N.J.A.C. 8:31B was last readopted effective December 15, 2005. (See 37 N.J.R. 2165(a), 38 N.J.R. 667(a)). In accordance with N.J.S.A. 52:14B-5.1c, the filing of this notice of proposal for readoption with the Office of Administrative Law prior to December 15, 2010, operated to extend the expiration date of N.J.A.C. 8:31B to June 13, 2011.

Mandating data submissions from hospitals began in 1971 with the Health Care Facilities Planning Act, N.J.S.A. 26:2H-1 et seq., which mandated a uniform system of cost accounting for health care services. The Acute Care Hospital
Cost Reports were developed in 1974 for the Standard Hospital Accounting and Rate Evaluation (SHARE) hospital reimbursement system.

Modifications in 1980 occurred as a result of the adoption of the all-payer hospital reimbursement system, mandated by P.L. 1978, c.83, which replaced the SHARE system in 1980 and established hospital inpatient rates based on Diagnostic Related Groups (DRGs).

Hospital reimbursement was deregulated effective January 1, 1993. Nonetheless, the Health Care Reform Act of 1992 (P.L. 1992, c.160), retained the requirement of the Health Care Facilities Planning Act that hospitals submit cost reports and financial statements to the Department. The cost report forms retain data elements necessary for calculating Medicaid fee-for-service inpatient rates, various hospital subsidies from the Health Care Subsidy Fund, including those provided for by P.L. 2004, c. 113, and fees mandated by N.J.S.A. 26:2H-18.57 and 18.62, both amended by P.L. 2004, c.54, that hospitals remit to the Department to fund various health initiatives. Moreover, the Department's central role in protecting access to quality health services in the State requires timely, reliable information on the financial condition of hospitals.

The Hospital Financial Reporting chapter comprises five subchapters: General Provisions, Hospital Reporting of Uniform Bill Data, Financial Monitoring and Reporting Regulations, Financial Elements and Reporting, and Standards for Hospital Notification Regarding Offset of Medicaid Payments and Charity Care Subsidy Payments to Collect Hospital Debts Due to the State.

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N.J.A.C. 8:31B-1, General Provisions, specifies the purpose and scope of the chapter, and the definitions of frequently used terms. The Department proposes no amendments to this subchapter on readoption.

N.J.A.C. 8:31B-2, Hospital Reporting of Uniform Bill Data (Inpatient, Same-Day Surgery and Emergency Department Outpatient), would continue to provide for a standard patient-level data reporting system. The Department began collecting patient billing data as part of the 1978 reimbursement system to set inpatient rates based on diagnosis. This information is still collected from all licensed general acute care hospitals in New Jersey, as well as certain special hospitals, and is used to set Medicaid fee-for-service rates. The Department also uses the data to analyze hospital market share, treatment patterns, patient demographics and other public health issues. After safeguarding the confidentiality of protected health information in accordance with Federal and State rules, the Department makes these data available to the public for clinical and financial analyses.

This subchapter would continue to incorporate the National Uniform Bill as the standard format for reporting to the Department billing data for all inpatients, same-day surgeries, and emergency department outpatients. In addition, the subchapter would continue to describe data intermediary duties, data submission schedules, editing, costs, and penalties for late submission of data.
The National Uniform Billing Committee (NUBC) determines the data requirements and design of the standard format used nationally to report billing data, called the National Uniform Bill. The NUBC commonly refers to the National Uniform Bill as "UB-04," or "HCFA-1450." N.J.A.C. 8:31B-2, which incorporates the National Uniform Bill as the format for reporting billing data for all inpatients, same-day surgeries, and emergency department outpatients to the Department, refers several times to the National Uniform Bill using these shortened names. The Department proposes no amendments to this subchapter on readoption.

N.J.A.C. 8:31B-3, Financial Monitoring and Reporting Regulations, and 4, Financial Elements and Reporting, describe the financial and utilization data requirements, submission schedules, penalties for late submission, general guidance, and guidance on specific data elements. The required annual cost report data include cost, revenue and statistical data. Certified, audited financial statements provide verification for data contained in the cost reports. Annual data are used as source data by the State agencies to set Medicaid fee-for-service inpatient hospital rates, calculate various subsidies, and to assess hospitals in accordance with P.L. 1992, c.160, as amended by P.L. 2004, c.54. Quarterly data are used to monitor the financial stability of hospitals and access to health services in the State.

Proposed N.J.A.C. 8:31B-3.67, would continue to reflect in regulation the implementation of the 0.53 percent assessment on hospital revenues (Pursuant to N.J.S.A. 26:2H-18.62, as amended by P.L. 2004, c.54, § 2) that has been in place for over a decade. N.J.A.C. 8:31B-3.67(a) would indicate that each general hospital and
specialty heart hospital will be assessed annually 0.53 percent of its total operating revenue as reported in its most recent New Jersey Acute Care Hospital Report, and that the Department will prorate all assessments so as not to exceed the statutory limit of $40 million to be assessed annually for all covered hospitals. The proposed language would continue to indicate that a hospital's total operating revenue is to include revenue from any ambulatory care facility licensed to the hospital as a hospital-based, off-site ambulatory care services facility, and that, in the event a hospital has not submitted its annual cost report due on June 30 by the time the Department calculates the 0.53 assessments for the following fiscal year, the Department shall use the hospital's prior year's assessment, increased by 15 percent.

Proposed N.J.A.C. 8:31B-3.67(b) would continue to provide for a reallocation of the resulting shortfall among all remaining hospitals should a previously assessed hospital close during the assessment year. N.J.S.A. 26:2H-18.62, as amended by P.L. 2004, c.54, § 2, authorizes the Commissioner to determine the manner in which the assessment is made. Because the Department is proposing to continue to prorate each hospital's assessment to avoid exceeding the $40 million annual limit, closure of a previously assessed hospital would result in a reduction of that hospital's assessment for the State fiscal year, and a total assessment amount less than the $40 million limit. The Department would continue to reallocate the difference among all remaining hospitals to retain the $40 million limit. This proposed readoption would reflect current Department practice. The Department proposes no amendments to these two subchapters on readoption.
N.J.A.C. 8:31B-4, Financial Elements and Reporting, would continue to provide the basis for the standardized system of reporting of the financial elements required in the chapter. Part I of the subchapter would continue to describe Reporting Principles and Concepts. The hospital itself would continue to be considered the primary unit for which the accounting records are to be maintained and the reporting period and submission dates for each hospital’s Acute Care Hospital Cost Report and Annual Audited Financial Statement would continue to be set forth at N.J.A.C. 8:31B-4.6.

Standardized financial reporting concepts, such as “objective evidence,” “full disclosure,” “materiality,” “basis for valuation,” “accrual accounting,” matching of revenues and expenses,” “revenues and deductions from revenues,” “fund accounting,” “long-term security investments,” “pooled investments,” “inventories,” “accounting for minor moveable equipment,” accounting for capital facilities cost,” “timing difference,” “reporting of pledges,” “self-insurance,” and “related organizations,” would continue to be explained and defined at N.J.A.C. 8:31B-4.7 through 4.25.

Part II of the subchapter would continue to describe General Guidance, including “Financial elements,” “Services related to patient care,” “Direct patient care,” “Paid taxes,” “Educational, research and training program,” “Charity care and reduced charge charity care,” “Demographic information,” “Salaries and wages,” Physician compensation – hospital component,” “Physician compensation – professional component,” “Employee fring benefit,” “medicinal and surgical supplies,” “Non-medical and non-surgical supplies,” “Purchased services,” “Other direct expenses,” “Major moveable equipment,” “Reports of costs and revenues,” “Separately reported health care

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N.J.A.C. 8:31B-5 would continue to set forth the standards for hospital notification regarding offset of Medicaid payments and charity care subsidy payments to collect hospital debts due to the State. The Department proposes no amendments to this subchapter on readoption.

Because the Department has provided a 60-day comment period for this notice of proposal, this notice is excepted from the calendar requirement set forth at N.J.A.C. 1:30-3.3(a)5.

**Social Impact**

N.J.A.C. 8:31B is designed to gather comprehensive and comparable hospital data, which provide governmental agencies and the public with valuable information for tracking and analyzing health care costs and utilization patterns. These data are also used to implement statutory assessments on hospitals, and as source data in the calculation of hospital subsidies and Medicaid fee-for-service hospital inpatient rates. Because of the multiple uses of these data and their impact on the hospital industry, as well as the State Medicaid program, assuring the accuracy and timeliness of this data promotes the public’s interests. The regulated entities that would continue to be affected by the proposed readoption of this chapter would include 71 licensed general hospitals, eleven licensed long term acute care hospitals and one licensed special hospital providing cardiac services.

The rules proposed for readoption provide a process for the submission of complete and accurate data which will support health care policy research and
evaluation and will be available to interested public and private parties. Accurate, timely data are crucial to effective analysis and decision-making. Patient confidentiality will continue to be protected in accordance with Health Insurance Portability and Accountability Act (HIPAA) and State laws.

**Economic Impact**

The rules proposed for readoption of N.J.A.C. 8:31B should have minimal economic impact on hospitals. The end of hospital rate setting in 1993 greatly reduced the economic burden of providing utilization management and calculating factors to use in setting rates. In addition, new technology has already reduced the costs to hospitals of reporting inpatient, same-day surgery and emergency department data. As far as the enforcement penalties associated with non-compliance with the requirements of this chapter is concerned, the per diem penalty provided for at N.J.A.C. 8:31B-3.3(c) for late or incomplete submissions of cost reports is within a hospital's control to avoid imposition of the penalty.

**Federal Standards Statement**

There are no Federal standards or requirements applicable to the rules proposed for readoption. Therefore, a Federal standards analysis is not required.
Jobs Impact

The Department believes that the rules proposed for readoption would not result in an increase or decrease in the number of jobs available in licensed health care facilities.

Agriculture Industry Impact

The rules proposed for readoption have not had and, with the proposed amendments, would not have an impact on the agriculture industry of the State.

Regulatory Flexibility Statement

The rules proposed for readoption and the proposed amendments would impose requirements only on acute care hospitals licensed in New Jersey, which are not “small businesses” within the meaning of the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq. Therefore, the rules proposed for readoption and the proposed amendments would impose no requirements on small businesses. Therefore, no regulatory flexibility analysis is necessary.

Smart Growth Impact

The rules proposed for readoption would not have an impact on the achievement of smart growth and implementation of the State Development and Redevelopment Plan.

Housing Affordability Impact

The rules proposed for readoption would continue to have an insignificant impact on affordable housing in New Jersey and there is an extreme unlikelihood that the rules.

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would evoke a change in the average costs associated with housing because the rules establish hospital financial reporting standards and have no bearing on housing issues.

**Smart Growth Development Impact**

The rules proposed for readoption would continue to have an insignificant impact on smart growth and there is an extreme unlikelihood that the rules would evoke a change in housing production in Planning areas 1 or 2 or within designated centers under the State Development and Redevelopment Plan in New Jersey because the rules establish hospital financial reporting standards and have no bearing on housing issues.

**Full text** of the proposed readoption may be found in the New Jersey Administrative Code at N.J.A.C. 8:31B.